Office of the Secretary
Service Date
September 30, 2005

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO CHANGE ITS PRICES (2005 PURCHASED GAS COST ADJUSTMENT)	)))))	**CASE NO. INT-G-05-2** **ORDER NO. 29875**

On August 8, 2005, Intermountain Gas Company (Intermountain Gas; Company) filed its annual Purchased Gas Cost Adjustment (PGA) Application with the Idaho Public Utilities Commission (Commission) requesting authority to place new rate schedules in effect as of October 1, 2005 that will increase its annualized revenues by $67.6 million (27.2%). The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage, and other related costs of acquiring natural gas. The Company contends that its earnings will not be increased as a result of the proposed changes in prices and revenues.

The Commission issued a Notice of Application and Modified Procedure on August 26, 2005. Order No. 29856. Pursuant to Rule 125, IDAPA 31.01.01.125, Commission Staff conducted two public workshops, one in Pocatello on September 12, 2005, and one in Boise on September 13, 2005. The Commission received written comments from AARP Idaho, Community Action Partnership Association of Idaho (CAPAI), Commission Staff, 34 individual customers, and reply comments from the Company. After reviewing the comments and record in this case the Commission approves the Company's Application as more fully set forth below.

THE APPLICATION

With its Application, Intermountain Gas seeks to pass through to each of its customer classes a change in gas-related costs resulting from: (1) changes in the Company's firm transportation and storage costs resulting from the Company's management of its storage and firm capacity rights on pipeline systems, (2) an increase in the Company's Weighted Average Cost of Gas (WACOG), (3) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment provision, and (4) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from the Company's deferred gas cost account.

According to its Customer Notice, if its Application is approved, the Company states that rates for residential customers using natural gas for space heating only will increase an average of 25.5%. Rates for residential customers using natural gas for space and water heating will increase an average of 27.4%, and rates for commercial customers will increase an average of 28.4%.

Intermountain Gas proposes increasing the WACOG from the currently approved $0.55492 per therm to $0.73219 per therm. The Company states that over the past year natural gas prices have more closely followed the price of crude oil, as hedge funds and traders have become increasingly indifferent as to which commodity provides btu's to the marketplace, and that both crude oil and natural gas prices are at historic high levels. The Company states that the price levels in its Application are forward prices currently available through the use of financial derivatives as of July 29, 2005. The Company states that, although current commodity futures prices dictate the use of $0.73219 WACOG, it continues to remain vigilant in monitoring natural gas prices and is committed to come before the Commission prior to this winter's heating season to amend these proposed prices, if the forward prices materially deviate from the $0.73219 per therm.

COMMENTS

A. AARP Idaho

AARP Idaho is a nonprofit, nonpartisan membership organization for people 50 years and older. It has approximately 162,000 members representing all segments of the socio-economic scale. AARP asks that as the Commission deliberates it keep the interests of residential customers, especially those on fixed and low incomes, in mind. It states that older Americans are particularly susceptible to extremes in temperature, and that any degradation in utility services can pose serious health concerns. The organization cites and quotes information from the U.S. Department of Energy regarding dramatic price increases in natural gas and electricity as a result of the supply disruption associated with Hurricane Katrina. It urges a close look at Intermountain's gas procurement process, and a thorough review and evaluation of all information and data offered to justify the Company's proposals. AARP also requests that the Commission ensure that adequate low-income assistance is available to help reduce energy burdens on those customers.

AARP recommends the adoption of "automatic program enrollment." By this the organization intends that customers who participate in any means-tested financial assistance programs, such as LIHEAP, Medicaid, TANF, welfare assistance, Food Stamps, etc. would be automatically enrolled in Idaho's low income energy assistance program(s). The organization also states simply that funding for energy assistance programs should be expanded to meet growing customer needs.

B. Community Action Partnership Association of Idaho (CAPAI)

Citing poverty statistics in the State of Idaho, demand for energy assistance, and the increasing energy rates and prices, CAPAI asserts that it is critical "to take substantive steps toward a deeper analysis and course of action toward addressing poverty in Idaho, and those exacerbating factors, such as increasing utility costs." CAPAI states that Intermountain Gas Company is unique in that it does not have a low-income weatherization program in place. Acknowledging that its concerns may fall outside the scope of this proceeding, the organization proposes that the Commission initiate a separate proceeding for the purpose of assessing Intermountain's attempts to address the needs of its low-income customers.

C. Commission Staff

Staff reviewed the Company's filing and gas purchase contracts to verify that the Company's earnings will not increase because of the filing, that the deferred costs are prudent, and to determine the reasonableness of the WACOG request. Staff discussed: (1) the effects of the one-time 15-month deferral period resulting from the timing adjustment ordered in last year's PGA; (2) the Company's new gas contracts for purchases and storage; (3) Intermountain's 2004-2005 financial hedge transactions; (4) market prices and factors affecting the WACOG; (5) the Company's newly developed Gas Supply Risk Management Program and the $696,276 recovery hold back from the 2004 PGA; and (6) customer relations issues. Staff recommended approval of the Company's Application including approval of the proposed WACOG of $.73219, recovery of the $696,276 reserved in last year's PGA case, and collection of the deferred amounts as requested. Additionally, Staff recommended that the Company continue to file its quarterly WACOG projections and monthly deferred costs with the Commission, and that the Commission open a separate docket to evaluate customer deposits, Company contributions to fuel funds, and conservation/weatherization programs.

In order to better align the price changes from the PGA with the time the gas was to be used, the Commission in Order No. 29540 from the 2004 PGA directed the Company to file the 2005 PGA by August 15, 2005, with an effective date of October 1, 2005. This has the effect of having a one-time 15-month deferral period for this 2005 PGA. The deferral period in 2006 and forward will once again be 12 months. Although the additional three months of deferred costs added substantial amounts to this increase, the same recovery, Staff contends, would have been sought from customers no matter when the Company filed its Application. With the August filing date the Company and Staff will have more reliable data in which to estimate winter gas commodity prices.

The Company, Staff notes, was able to acquire a contract for additional gas storage facilities for the next 35 years. The additional storage allows the Company to purchase gas in the summer when prices have traditionally been lower and use the gas during the winter when gas is traditionally higher. Although gas price volatility has made the summer-winter price spreads less predictable, the storage continues to provide operational flexibility that allows the Company to save money by avoiding certain high-priced peaks during the winter. Staff reviewed the analysis performed by the Company in acquiring this additional storage and agrees that the additional storage does reduce the costs that will ultimately be passed on to customers.

Staff notes that Intermountain Gas used two different hedging strategies during the PGA year. First, the Company compared first of month gas prices to what it believed would be the daily prices for the coming month, trading its monthly price for a series of daily prices if forecasted to be lower. This technique was done six times throughout the year, and overall resulted in a savings over the first of month pricing. The second type of hedging strategy used by the Company involved a traditional financial instrument to fix the price of gas for any given month or months. The Company utilized this method once during the year. In December it executed fixed price hedges for 90% of the January 2005 gas purchases. The Company provided detailed documentation and analysis to justify its decision. Overall, the Company's financial hedges provided a benefit of $115,033.06 to customers for the PGA year.

The Commission in the 2004 PGA, Order No. 29540, directed Intermountain Gas to develop better risk management policies and practices, and reserved $696,276 for future determination and possible adjustment pending the filing of an updated risk management plan. Staff worked with Intermountain over the last 15 months to assist the Company in developing a more appropriate risk management/hedging policy, and on September 1, 2005, the Company filed its Gas Supply Risk Management Program with the Commission. The Risk Management Program is an ongoing effort that Staff and the Company expect to enhance and refine as the program is evaluated in connection with the marketplace. Staff recommended that the $696,276 previously set aside be included for recovery in this case. Staff will file separate comments associated with the Risk Management Program to specifically address the individual aspects of the program.

Staff pointed out that customer complaints relating to the Company's collection of deposits were up significantly in 2005, and attributes this in part to a rule change in 2003 regarding deposits. Staff believes that the combination of higher rates, a substantial rate increase, and deposit collection policies creates a situation where space heating only customers may be disproportionately affected by higher rates. Additionally, Staff reports that Intermountain Gas, as compared to other Idaho energy companies, has a disproportionately small contribution level to low-income assistance programs, and has no low-income weatherization program whatsoever. Staff recommends opening a docket to specifically address these issues.

D. Individual Customers

The Commission received approximately 34 written comments from customers. All but one customer opposed any increase. More than half of the commenters identified themselves as low-income and senior citizens on fixed incomes. Many of the commenters addressed the fact that many of their utility bills, not just natural gas, have been increasing, and that increases are outstripping any increase in income they may have, and in many cases outstripping their ability to pay. The customer who did not oppose an increase stated that, although he did not want his winter heating bill to increase, he did not want his service to suffer from lack of funds to supply the product. The customer was in favor of the increase if Intermountain Gas truly needed it to cover its operating and wholesale costs. Another customer requested that any increase be implemented incrementally, instead of all at once, in the hopes that the large increase may be offset with future savings.

E. Company Reply

In reply comments submitted on September 21, 2005, Intermountain Gas addressed Staff's recommendation to open a docket to address customer deposits, fuel fund contributions, and low-income weatherization. The Company believes that opening a docket to examine these issues "would be redundant to the undertakings already addressed in previous dockets which established practices now followed and adhered to by the Company."

The Company states that the issue of customer deposits was addressed as recently as 2003, when the Commission approved changes to Rule 105. IDAPA 31.21.01.105. The 2003 proceedings took into account the unique nature of the RS-1, space heating only, customers who, in contrast to electric or gas space and water heating customers who consume year round, have usage limited to the heating "season." Adoption of the new deposit rules took into account the on-again, off-again nature, and accompanying risk, of this particular class of customer and the deposit rules were modified accordingly.

The Company states that Staff's statistics with regard to fuel fund contributions may be misleading. The contribution efforts should also be viewed in the context of the relative size of Intermountain Gas as compared to the other utilities noted by Staff. If viewed in the context of net income per customer, the Company's level of shareholder contributions far exceeds that of the other utilities noted by the Staff. The Company also notes its sponsorship, volunteer time, and shareholder contribution in activities such as the Project Warmth Golf Tournament, which is a major funding source for Project Warmth in eastern Idaho.

Regarding low-income weatherization, the Company notes that it has not raised its prices to accommodate weatherization or conservation funding, as other utilities have. The Company believes this to be appropriate in light of its customers already funding these programs through their other utilities. As included in its Integrated Resource Plan (IRP), Intermountain Gas continues to communicate and support those conservation efforts that benefit all of its customers, that encourage the wise and efficient use of all energy sources, that do not translate into higher prices to those customers who would otherwise provide weatherization subsidies, and are not redundant to those measures offered in the marketplace that can be funded by various governmental and private agencies.

DISCUSSION AND FINDINGS

We have reviewed the record for this case, including the Application and comments. No protests to the Commission's use of Modified Procedure were filed. We continue to find that the public interest does not require a hearing to consider the issues presented in this case and that Modified Procedure is appropriate. IDAPA 31.01.01.204. The Commission has jurisdiction over Intermountain Gas Company, its Application for authority to change rates and prices, and the issues involved in this case by virtue of Title 61, Idaho Code, specifically *Idaho Code* §§ 61-129, 61-117, 61-307, and 61-501, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

The Commission is required to establish just, reasonable, and sufficient rates for utilities subject to our jurisdiction. *Idaho Code* § 61-502. The Company's current PGA methodology was approved as modified in Case No. INT-G-95-1, Order No. 26019. The PGA mechanism is used to adjust rates to reflect changes in the costs for the purchase of gas from suppliers, including transportation, storage, and other related costs of acquiring natural gas. The Company's earnings are not to be increased from changes in prices and revenues resulting from the annual PGA. The PGA mechanism is designed to pass through prudently incurred commodity costs in a timely fashion.

Wholesale natural gas prices have continued to fluctuate dramatically. The volatile natural gas market has seen forecasts of future costs at record levels, and resulted in increased uncertainty about when and where prices will stabilize. As Staff explained, the impact of Hurricane Katrina, and the remaining hurricane season, was not included in the WACOG for this case, as it was calculated prior to the hurricane's disruption of the natural gas and petroleum industry and supply from the Gulf. Staff Comments at 7. Both Intermountain Gas and Staff believe the proposed WACOG of $0.73219 per therm to be appropriate. The Company's proposed WACOG was compared to other forecasts. Given the considerable market uncertainty, forward prices since the Company's filing indicate the possibility of an even higher WACOG. However, like the past two years, there are also market expectations that prices will decrease in the coming year. The very large increases seen immediately after Hurricane Katrina, spiking at $1.39 per therm, had begun to moderate to $1.17 per therm as of September 20, 2005. Setting a lower WACOG would ignore the price increases that have occurred since the Company's filing and could potentially result in a significantly higher deferral balance subject to recovery next year.

For the foregoing reasons, we find it reasonable to increase the WACOG from $0.55492 per therm to $0.73219 per therm. When combined with the surcharges, credits, and adjustments agreed upon by Staff and the Company, rates per therm will increase on average by 27.21%. The following table indicates the annualized change in rates per customer class:

Customer Class	Proposed Increased Class Revenue	Proposed Average Increase $/Therm	Proposed Average % Increase	Proposed Average Price $/Therm
RS-1 Residential	9,065,627	0.25572	25.49%	1.25888
RS-2 Residential	35,247,192	0.24543	27.44%	1.13985
GS-1 General Service	22,643,239	0.24223	28.36%	1.09646
LV-1 Large Volume*	593,241	0.21301	31.51%	0.88894
T-1 Transportation	-1,525	-0.00009	-0.08%	0.11085
T-2 Transportation (Demand)	8,492	0.01285	1.50%	0.86678
T-2 Transportation (Commodity)	-566	-0.00003	-0.46%	0.00653
Total Requested Amounts	$67,555,700	$0.21713	27.21%	$1.01524

The rate increase approved in this Order shall become effective on October 1, 2005. The Commission orders Intermountain Gas to adjust its billing and file new tariffs prior to implementing the new rate. *Idaho Code* § 61-618.

We are satisfied that the Company has sufficiently addressed our immediate concerns regarding a more formal risk management policy. On that basis we find that Intermountain Gas may recover the $696,276 that was reserved in Order No. 29540 for future determination and possible adjustment pending the filing of updated risk management policies and procedures. However, this is not the end of the work that must be accomplished regarding risk management. The continuing volatility, uncertainty, and upward trend of the natural gas market necessitates continued work, development, and improvement upon risk management and documentation of Company decision making. The Company is directed to continue to work closely with Staff to enhance and refine its risk management as the program is evaluated and put into practice in the marketplace.

In contrast to a general rate case, the annual PGA is a tracker, which is meant to consider only those changes in gas costs that are generally recognized as outside the Company's control. Although customers will pay a large increase associated with the commodity market price of natural gas, the Company's earnings do not change. In fact, Intermountain Gas has not requested an increase of Company earnings since its last general rate case in 1985. Case No. U-1034-122. Staff assures that Intermountain Gas is not over-earning or price-gouging customers by auditing the Company and monitoring its revenues, expenses, and operations. Staff looks closely at all of the Company's records and assures that the Company is making efforts to keep costs down, and making prudent business decisions. Staff's next full and complete audit of Intermountain Gas will take place during Spring 2006. We are confident that Staff will continue to be diligent in its review of the Company's revenue and expenses. Demand continues to grow for natural gas, and as a regulated public utility the Company must meet that demand. It cannot reduce the amount of gas it is willing to provide to customers when the price gets too high, like a non-regulated business. As a result, the utility is entitled to recover the prudent and reasonable costs associated with providing gas to its customers.

While we understand and are sympathetic to the economic difficulties faced by customers, especially those of low or fixed incomes, resulting from the dramatic increases in the cost of natural gas, we decline Staff's invitation to open a separate docket to examine the issues of customer deposits, Company fuel fund contributions, and a Company low-income weatherization program. Customer deposits were recently examined under a separate docket, and there is no indication that the Company is violating the change in customer deposit Rule 105 that resulted from that case. The Commission's primary duties are to: ensure that all charges made, demanded, or received by a public utility are just and reasonable, *Idaho Code* § 61-301; ensure that public utilities maintain adequate, efficient, just and reasonable service to the public, *Idaho Code* § 61-302; and to ensure that all rules and policies adopted by a public utility affecting or pertaining to its charges or service to the public are just and reasonable, *Idaho Code* § 61-303. There are federal, state, and local low-income and weatherization assistance programs currently available to customers of Intermountain Gas, and the discussion of additional rate increases to support such programs is beyond the scope of a PGA. Customers interested in low-income programs, weatherization and heating assistance, and/or budget pay programs should contact the Commission Consumer Assistance Staff at 1-800-432-0369 for more information on programs in their vicinity.

Intermountain Gas Company's Application indicated that the Company "is committed to come before this Commission prior to this winters heating season with an Application to further amend these proposed prices, should these forward prices materially deviate from the $0.73219 per therm WACOG." Application at 6. Although "materially deviate" was not defined by the Company, the Commission, as was done last year, directs

Intermountain to promptly seek a rate adjustment if forward commodity prices decrease by 5% or more below the $0.73219 per therm WACOG.

O R D E R

IT IS HEREBY ORDERED that Intermountain Gas Company's Application in Case No. INT-G-05-2 is approved. The Company shall file tariffs in conformance with a WACOG of $0.73219 to be effective October 1, 2005. Intermountain Gas shall promptly seek a rate adjustment if forward commodity prices decrease by 5% or more below this WACOG.

IT IS FURTHER ORDERED that Intermountain Gas pass through its proposed permanent adjustments and temporary surcharges and credits to customers as filed.

IT IS FURTHER ORDERED that Intermountain Gas is hereby allowed to collect the $676,276 that was previously reserved by Order No. 29540.

IT IS FURTHER ORDERED that Intermountain Gas continue to file quarterly WACOG projections and monthly deferred costs reports with the Commission.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29th day of September 2005.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

DENNIS S. HANSEN, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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